Comprehending the outward FDI from Latin America and OCED: a comparative perspective

Abstract

This study examines the determinants of outward foreign direct investment (FDI) from Latin American countries and compares that with their OECD counterparts. Our analysis is based on a sample of 45 countries, 13 from Latin America and 32 from the OECD, over the period 2001–2012. We find that the outward FDI from Latin America is more likely to be located in geographically proximate countries, and in countries with similar culture and language than that from their OECD counterparts. We also show that Latin American outward FDI is less likely to be resource seeking. This presumably reflects the rich natural resource endowments and agricultural potential in major Latin American countries. Further, outward FDI from Latin America is more likely to be concentrated in countries with similar corruption environment than that from their OECD counterparts. This might indicate broadly similar nature of corruption across Latin America due to shared cultural, political and economic legacies.

Keywords: Latin America, OECD, outward FDI, locational determinants, international comparison

1. Introduction

A key question in international business researchishow firms exploit investment opportunities in foreign markets. The eclectic paradigm (Dunning, 1993), built upon the transaction cost theory (Williamson, 1985, 1993),offers valuable insights into the economic, social and institutional stimulants of outward foreign direct investments (FDIs) (Driffield at al., 2013; Dunning, 1993; Flores & Aguilera, 2007). Prior studies commonly use institutional theory to explain the FDI behaviours of developed multinationals countries (DMNEs) (Bajgar &J avorcik, 2020; Buckley & Casson, 1998; Rugman & Doh, 2008). However, the internationalisation process of DMNEs may not necessarily applicable to multinationals from emerging markets (EMNEs), due to inherent differences, particular in terms of ownership advantages of host countries, between EMNEs and their counterparts from developed economies(Child &Rodriques, 2005; Dunning, 1993;Kumar & Kim, 1984; Luo and Tung, 2007).

There has been increasing scholarly interest in EMNEs, but this has also focused mainly on the internationalisation of firms from a few emerging countries, such China and India (Ciravegna et al., 2013) and paid relatively little attention to the outward FDI from the Latin American region (Cuervo-Cazuvra & Liberman, 2010; Elahee & Doh, 2001). Much of the current work on Latin American outward FDI is based on the case of Brazil, which has a number of unique features, ranging from the active role of the state-owned national development bank in promoting outward FDI, to the biofuel industry's technological lead in ethanol production (Chavarria, 2001; Santiso, 2008).

While the outward FDI from Brazil represents 40% of the Latin American FDI stock (Santiso, 2008), MNEs from other Latin American countries, such as Mexico, Argentina and Chile, have also implemented aggressive internationalisation strategies andoccupy leadership positions in many global industries, including foods, steel, transportation and renewable energy (Guillen &Garcia-Canal, 2009; Ludeña, 2011).According to the UNCTAD (2010, 2014), the value of cross boarder acquisitions by Latin American MNEs has increased substantially over the past few decades, i.e., from $1 in 1990 to over $32 billion in 2012. Given their growing importance in the global arena, it is surprising that there is only a limited research on the internationalisation strategies of Latin American multinationals.

This study aims to enhance our understanding of the FDI decisions of Latin American firms by exploring the determinants of Latin American outward FDIs, with a particular focus on what distinguishes Latin American outward FDI from that of the developed world, such as the OECD. An emerging body of work suggests that outward FDI from Latin America may have particular characteristics (Chavarria, 2001; Santiso, 2008), including a strong preference for the immediate region and countries with strong historical and cultural ties (Guillen & Garcia-Canal, 2009; Maehler et al., 2011), embracing higher risk international ventures (Luo & Tung, 2007) and investing in institutionally complex environments (Demirbag et al., 2015; Guillen & Garcia-Canal, 2009). This raises at least two important questions about the internationalisation strategies of Latin American MNEs: (i)is the outward FDI by firms from Latin American more or less constrained by the cross-national distances than their counterparts from OECD? and (ii)how important are natural resources, strategic assets and market shares for the FDI location of Latin American firms compared to their counterparts from OECD?

We answer the above questions by utilizing a sample of 45 countries, 13 from Latin America and 32 from the OECD, over the period 2001–2012. A direct comparison of the determinants of outward FDI from Latin America and the OECD yields a number of interesting findings. Firstly, the Latin American outward FDI is more likely to be located in geographically proximate countries with similar culture and language than that of the OECD. Secondly, we find that the outward FDI from Latin America is less likely to be resource seeking. This presumably reflects the rich natural resource endowments and agricultural potential in major Latin American countries, such as Brazil and Argentina (Santangelo, 2018). Thirdly, our finding that outward FDI from Latin America is more likely to be concentrated in countries with similar corruption may reflect the broadly similar nature of corruption across Latin America due to their common political and economic legacies (Manzetti& Blake, 1996). Further, the outward FDI from Latin America tends to be located in regions with different political environment to their own. Although political traditions are highly heterogeneous across OECD countries, several Latin American countries have also experienced dramatic political conditions over the past few years, potentially preparing Latin American MNEs to cope with unforeseen political challenges. This evidence is consistent with Rodriguez et al. (2006), who maintains that in dealing with any uncertainty or

shifting rules of the game, firms will typically develop fairly standard mechanisms of coping (Rodriguez et al., 2006).

Our study makes two important contributions to the IB literature. First, we provide a fuller picture of the nature of outward FDI from Latin America, drawing out the implications for theory and practice. Much of the prior research on the Latin American outward FDI is basedon a single country setting (e.g., Casanova & Kassum, 2013; Guillen &Garcia-Canal, 2009; Santiso, 2008), whereas this study aims to identify the commonality in the behaviour of the outward FDI originating from Latin America as a region. What sets Latin American countries apart is the similarities in their historical background, economic and political development, geographic characteristics and sociocultural attributes, which differ from other regions of the world (Bulmer-Thomas, 2003). We argue that because of the unique and homogenous characteristics of Latin American countries, MNEs from this region are expected to pursue similar internationalisation strategies.

Second, we compare the outward FDI strategies of Latin America with those of their counterparts from the developed markets (i.e., OECD).While existing studies document that EMNEs do not replicate the internationalisation strategies of their counterparts from developed countries (Li et al., 2018; Luo &Tung, 2007; Sutherland et al., 2020), studies that compare the experience and strategies of the outward FDI from Latin America with that of developed market MNEs are lacking in the literature. The only exception is Malhotra et al. (2016),who compare the equity ownership strategies of Latin American and US multinationals in cross-border acquisitions. We deviate from Malhotra et al. (2016) by comparing the location decisions of the Latin American outward FDI with that of the OECD. Whilst the OECD represents a somewhat diverse group of states, it includes the wealthiest countries in the world and encompasses the developed mature markets and a number of transitional economies that have already made rapid developmental progress (Fölster&Henrekson, 2001). Although the OECD has recently undergone reform in becoming a much more inclusive body than its traditional role as the 'club of the rich', it remains heavily weighted towards the most prosperous developed nations (Clifton & Díaz-Fuentes, 2011).Thus, comparing the behaviour ofthe outward FDI from Latin American countries with that from their OECD counterparts enhances our understanding of how home-host country differences affect the FDI decision-making.

The reminder of the paper proceeds as follows. Section 2 provides a brief review of the literature and outlines the hypotheses. Section 3 presents the data and the empirical strategy. Section 4 presents the empirical findings and discusses the implications of the results. Finally, Section 5 offers some concluding remarks.

2. Literature review and hypothesis development

2.1. Theoretical background

The literature on FDI has generally focused on improving efficiency. The organization of economic activity has mainly been analysed in the context of transaction cost theory (TCT) (Williamson, 1985, 1993), which is concerned with evaluating costs of integrating an operation within the firm as opposed to the costs of using an external market to act for the firm in an overseas market. Built upon the TCT, the eclectic paradigm (Dunning, 1993) specifies: ownership (O), location (L) and internalization (I) advantages as the main motives foroutward FDI. O and I advantages form part of the MNEs characteristics, while L advantages are gained by exploiting the business environment of the host country. The eclectic paradigm suggests that MNEs develop competitive O advantages at their home country and transfer them aboard through FDI to countries where they can exploit the L advantages provided by the host country (Dunning, 1993; Rugman, 2010).

The OLI paradigm embraces a wide range of economic and social determinants for FDI (Driffield at al., 2013; Dunning, 1993; Flores & Aguilera, 2007). The economic costs consist primarily of market-driven costs that relate to geographic distance (e.g., transport and communication costs, foreign exchange costs and tariffs). These costsare related to value-adding activities and can, therefore, be understood, anticipated and measured reasonably easily by MNEs (Calhoun, 2002). In contrast, the social content of costs arises from the unfamiliarity, relational and discriminatory hazards faced by foreign firms over and above those faced by local firms in the host country (Eden & Miller, 2004; Zaheer, 2002).

Several studies have analysed the cross-national distance in a range of dimensions, comprising cultural distance (e.g., Berry et al., 2010; Kogut&Singh, 1988; Shenkar, 2001; Slangen et al., 2011), institutional distance (Kostova, 1999; Kostova& Zaheer, 1999; Schwens et al., 2011) and psychic distance (Johanson &Vahlne, 1977).Others (e.g., Kostova, 1999; Eden & Miller, 2004) have highlighted the importance of the

institutional distance (regulatory, normative and cognitive) between the home and host countries. The regulatory pillar of the institutional distance sets out prescriptive "may" or proscriptive "may not" behaviour (where "may" implies permission); the normative pillar specifies how things "should" or "should not" be done, reflecting the values and norm of the society; the cognitive pillar defines what "is or is not true" and what "can or cannot be done" (where "can" implies ability) (Eden & Miller, 2004; Scott, 1995).

The transaction costs and risks associated with operating in a foreign environment are likely to increase with the institutional distance between the home and host country rises, as MNEs will find it more difficult to build organizational legitimacy in the host countries (Kostova & Zaheer, 1999) and transfer strategic routines to foreign subsidiaries (Kostova, 1999; Kostova & Roth, 2002). The increase in cross-national institutional distance also makes it more challenging for MNEs to overcome the liability of foreignness and sustain their competitive advantages in the host country (Hymer, 1976; Salomon &Wu, 2012; Zaheer, 1995; Zhou &Guillen, 2016).

2.2. Outward FDI from mature and emerging markets

The internationalisation process of EMNEs may not simply be a revision of the earlier experiences of their counterparts from developed markets. Thus, studying the outward FDI from mature markets is unlikely to enhance our understanding of the outward FDI from emerging markets (Kumar &Kim, 1984).

Compared to developed market MNEs, EMNEs tend to lack strong brands, consumer loyalties and radically new or exclusive goods (Kumar &Kim, 1984). In addition, EMNEs might not only be able to produce basic consumer products at a lower cost than would be possible in developed economies, but they are also able to leverage the increasing economic cooperation across the developing world (Kumar &Kim, 1984). Emerging market governments may actively promote outward FDI in support of broader developmental and/or political objectives (e.g., Gammeltoft et al., 2012; Luo et al., 2010). For example, the Brazilian government has actively promoted the Brazilian outward FDI (Onis, 2008). Guillen and Garcia-Canal (2009) argue that the primary entry mode for EMNEs has been external growth via alliances or acquisitions. Specifically, EMNEs are

characterizedby a pursuit of internationalisation at an accelerated rate, being adaptable and capable of coping with political uncertainty, but having weak inherent competitive advantages. Furthermore, EMNEs have 'institutional entrepreneurial ability' that enables them to cope better with the fluid or incomplete institutional frameworks of developing countries (Guillen & Garcia-Canal, 2009). Indeed, there is evidence that EMNEs are more likely to invest in countries with institutional failings, owing to their previous experience of operating in such environments (Cuervo-Cazurra&Genc, 2008c; Demirbag et al., 2015).

From the springboard perspective (Luo and Tung, 2007), the outward FDI from emerging economiesis mainly driven by the acquisition of critical resources abroad and overcoming institutional and market constraints at home (Child &Rodriques, 2005). Some EMNEsmay also opt for risky international ventures in order to overcome their latecomer disadvantage (Luo &Tung, 2007). Unlike MNEs in mature markets, EMNEs possess a set of competitive advantages, which complement their own country specific advantages, and they seek to exploit differences across countries rather than similarities (Ramamurti, 2012). Despite being latecomers, EMNEs are willing to accept higher risk of entering uncertain market (Malhotra et al., 2016).

As EMNEs are, in many instances, relatively latecomers to the international stage, it is likely that they will face particular challenges in catching up (Ramamurti, 2012). As such, these MNEs seem to prioritise strategic assets, such as technology, know-how, R&D facilities, human capital, brands, consumer bases, distribution channels, managerial expertise and natural resources (Guillen & Garcia-Canal, 2009), which could serve as a springboard for their rapid growth (Mathews, 2006). More specifically, strategic assets are necessary for EMNEs to meet the needs for bolstering economic and social development at home and compensating firm-level competitive disadvantages. These assets may also help EMNEs to encompass technology, gain market share (Fu et al., 2011; Luo & Tung, 2007) andsecure concessions to extract natural resources.

2.3. Outward FDI from Latin America

Cuervo-Cazurra (2008a) argues that Latin American firms have generally been latecomers to the internationalisation game. However, recent domestic reform has forced such firms to become more globally competitive. Santiso (2008) maintains that few Latin American MNEs rely on minerals or cheap labour as a

source of competitiveness. He also notes that, unlike many of their counterparts in Russia and China, Latin American MNEs are usually publicly traded.

Brazil and Mexico dominate the flow of FDI from Latin America, which has increased significantly from 1998 onwards. Santiso (2008) documents that 85 of the top 100 Latin American enterprises are from Mexico or Brazil, with Brazil accounting for 40% of Latin American FDI stock. Brazil's outward FDI exceeded its inward FDI for the first time in 2006 (Casanova &Kassum, 2013). Prominent Brazilian multinationals include the Companhia Vale do Rio Doce and Metalurgica Gerdau (mining and steel), Embraer (a dominant player in the regional jet market), Natura Cosmeticos (beauty products) and Petrobras (energy). Arbix and Luiz (2011) argue that state activism has greatly facilitated internationalisation (c.f. Li et al., 2018).

Guillen and Garcia-Canal (2009) note that some of the most prominent Latin American MNEs outside of Brazil are from Mexico and Argentina. Examples of the former include CEMEX (cement), Grupo Modelo (beer) and Bimbo (foods), and of the latter, Tenaris (steel tubes) and IMPSA (systems and services, and renewable energy). Mexican MNEs have carved out a particular niche in providing ethnic-oriented products, such as tortillas, and construction materials (Guillen & Garcia-Canal, 2009). Another major source of outward FDI from Latin America is Chile, with the largest overseas investors being Cencosud (retail), COPEC (energy and forestry), CMPC (forestry), LAN (transport) and Sudamericana de Vapores (transport) (Ludeña, 2011). Carvalho et al. (2010) argue that Brazilian MNEs have tended to concentrate their activities in Latin America, albeit with a trend towards greater investments further afield in recent years (e.g., Onis, 2008). The same can be said for most other Latin American MNEs. For example, Lopez et al. (2009) find that in the case of Central America, even newly established firms tend to have a strong regional orientation.

2.4. Comparing outward FDI from Latin America and from OECD

Drawing from the transaction cost theory and springboard perspective (Luo & Tung, 2007), this study compares the outward FDI preferences of Latin America with those from OECD. In this subsection, we develop more detailed theoretical arguments on the differential effect of institutional distance, resource-seeking motives,

asset-seeking motives and market-seeking motives on the outward FDI decisions from Latin America and from OECD. Figure 1 below summarizes our broad theoretical framework.

Insert Fig.1 about here

2.4.1. Institutional distance

Existing theoretical work suggests that Latin American MNEs enjoy strong relations with indigenous diversified business groupings within Latin America, and this reflects wider institutional realities (Schneider, 2009). There are many different ways in which institutions, and distance from home institutions might be measured.Flores and Aguilera (2007), among the others, find that key sub-dimensions of the institutional environment that are likely to directly impact on FDI are cross-national distances in legal, political and cultural systems; to this might be added the effects of corruption. Relying on institutional theories of international business (Whitley, 1992), we consider four dimensions of institutional distance.This study proposes that the presence of cross-national institutional distance (measured as legal, political, corruption and cultural distances between the host and home country) will increase transaction costs and thus deter FDIs.

Furthermore, the relationship between the cross-national institutional distance and outward FDI may vary depending on the country of origin. Latin America is dominated by Iberian language speakers, with similar administrative and legal traditions, commonalities in historical experiences and shared experiences of institutional formation, politics (most recently, authoritarian rule, followed by democratisation and liberalisation) and policy (the reduction of protectionist measures). Drawing from the Springboard perspective (Luo & Tung, 2007), this study proposes that, Latin American countries are more likely to adopt more aggressive outward FDI strategies than their OECD counterparts, all other things being equal. The economic geography literature suggests that with proximity may come greater influence on regulations, and/or knowledge as to how to manipulate them (Walker, 2009). This, in turn, may explain a preference for investments relatively close to home. It also has been argued that regionalisation represents a mechanism for both diversifying risk, whilst being able to continue to enjoy familiarities, such as in terms of regulations and labour market structures (Yeung, 2009).

2.4.1.1 Legal distance

There is a very wide body of literature on the effects of legal origin on investment and economic growth (Ahlering & Deakin, 2007; La Porta et al., 1997). It has been argued that institutional environments are distinguished by legal systems that are rooted in English common law are associated with less regulation of markets and provide better protections for investors, creditors and investors, whereas civil law regimes are characterised by lengthier judicial proceedings, more corruption and less honesty and fairness (e.g., La Porta et al., 1998and 2000). This implies that countries whose legal systems originate in English common law will attract more FDI (Globerman & Shapiro, 2003).

Another strand of research suggests that FDI tends to locate in countries with familiar legal systems. For instance, Globerman and Shapiro (2003) and Flores and Aguilera (2007) find that US FDI tends to be concentrated in countries whose legal system are rooted in English common law. There are commonalities in Latin America, reflecting not only French Civil Law legal origins, but also shared traditions of enforcement (O'Donnell, 1998). Although OECD MNEs might have more experience and knowledge in dealing with diverse legal systems, Latin American MNEs might take more aggressive approach in foreign investment. A common criticism of legal origin approaches to institutions is that it discounts very distinct patterns of institution building within legal families, and how this may differ from according to regions and following on different patterns of state formation (Deakin and Pistor, 2012). A further criticism of this approach is that it discounts the effects of the closeness of institutional coupling and associated institutional effectiveness that have emerged in the mature economies (Hall and Soskice, 2001). Firms in the latter build their competitiveness on the basis of the complementarities associated with such systems, and hence, venturing further afield, where these complementarities may no longer be manifest would be somewhat challenging. Finally, if one has more experience in dealing with poor regulatory enforcement, then one may be better equipped in dealing with such challenges further afield (Mingo et al., 2018).

Thus, it could be hypothesized that:

Hypothesis 1a: *Legal distance is less likely to deter outward FDI from Latin America than from OECD*

countries.

2.4.1.2 Political distance

Countries differ in terms of their political systems in dimensions, namely a democratic character and the size of state relative to the economy (Henisz, 2000). It has been argued that outward FDI tends to target countries with familiar political systems and processes in order to minimize uncertainty (Flores & Aguilera, 2007; Popkin & Dimock, 1999; Stasavage, 2002). Differences in political systems are likely to increase the cost and uncertainty of government-to-business and business-to-government communication (Dow & Karunaratna, 2006), making operations more difficult (Feng, 2001; Goerzen & Beamish, 2003).

The political risk in the host country does not always deter FDI. On the contrary, FDI from emerging countries, such as China, tend to be concentrated in relatively higher risk locations (Kang & Jiang, 2012). There are core commonalities in political traditions across Latin America, including colonial legacies, centralizing states, narrowly constituted and predatory elites and long legacies of military involvement in politics (Wiarda, 2003). Emerging market firms may develop a specific advantage from growing in politically unstable and risky environments. Again, as the economic geography literature suggests that countries with weaker political institutions may serve as a stage whose layout can be manipulated through powerful incoming investors. As local firms have got used to such uncertainties, they may be less concerned with political unknowns further afield (Zhang, 2019). These firms may be more willing to put up with challenging political environments if they can cope through insider knowledge (Henisz, 2000). To overcome the disadvantage of the latecomer, Latin America FDI is more likely to take the risk and invest in different political environments in than in OECD, then:

Hypothesis 1b: *Political distance is less likely to deter outward FDI from Latin America than from OECD countries.*

2.4.1.3 Corruption distance

Public sector corruption is another example of how institutional distance can affect LOF and FDI decisions (Eden & Miller, 2004). De Sardan (1999, p.25) argues that corruption is 'socially embedded within

the logics of negotiation', and encompasses a range of different elements, including not only variations in the extent of gift giving, but also the relative extent of predatory authority, social solidarity and 'retributive accumulation'. Corruption is characterised by pervasiveness (the probability of a firm's encountering corruption in its interactions with government officials and policymakers) and arbitrariness (the degrees of ambiguity or uncertainty associated with corruption transactions) (Rodriguez et al., 2006; Doh et al., 2003). In host countries with highly pervasive and arbitrary corruption, firms will face a high degree of costs and unpredictability/uncertainties. Nevertheless, empirical evidence on the effects of corruption onthe outward FDI is mixed, ranging froma negative (e.g., Cuervo-Cazurra, 2008b; Judge et al., 2011; Wei, 2000), to an insignificant (e.g., Henisz, 2000) or a positive impact(Egger & Winner, 2005; Huntington, 1968; Leff, 1964).

Corruption distance, as a liability of foreignness, involves both formal and informal institutions in the form of both normative and regulatory constraints. MNEs may experience difficulty due to the uncertainty and costs of engaging in local corruption and acquiringas well as maintaining legitimacy. Based on their O-advantage, MNEs prefer to invest in foreign locations that resemble their home environment. Habib and Zurawicki (2002) document that MNEs located in countries with low levels of corruption avoid investing in highly corrupt countries and that the greater the difference in corruption levels between the home and host country the lower the FDI flow between these countries.

We argue that not all outward FDI is affected equally by the corruption in the host country. According to Godinez and Liu (2015), firms based in highly corrupted countries are not excessively affected by high level of corruption aboard or corruption distance. Previous studies find that FDI from emerging marketscan take advantage of a location-bound O-advantage (Buckley et al., 2007) and operate more efficiently in other developing countries (Cuervo-Cazurra&Genc, 2008). It can be argued that the nature of corruption may be broadly similar across the Latin American countries, even if its intensity may vary. MNEs from Latin America might be able to use their knowledge of how to deal with corruption as a competitive edge against MNEsfrom OECD and thus:

Hypothesis 1c: *Corruption distance is less likely to deter outward FDI from Latin America than from OECD countries.*

2.3.1.4 Cultural distance

In addition to the formal institutional arrangements, distance between cultures, as an informal institution, has been studied as a main source of uncertainty in FDI decisions (Caves, 1982; Kim & Hwang, 1992; Malhotra et al., 2009; Malhotra et al., 2016; Shenkar, 2001). Cultural distance is closely linked to the normative pillar as "collective programming of the mind that distinguishes the members of one category from another" (Hofstede & Bond, 1988, P.6) and cognitive pillar that relates to the value and attitudes of a society. It has been argued that cultural distance increases the costs of organisational integration (Morosiniet al., 1998). Specifically, as cultural distance increase, unfamiliarity hazard, in terms of MNE's knowledge of the host country, increases, reducing firms' ability to comprehend and assess the market. Governance costs also rise with cultural distance,as motivations and goals vary across cultures (Calhoun, 2002). Consistent with this view, several studies showthat the difference in cultural values and norms between home and host countries exert a negative influenceon the FDI decisions (e.g., Hofstede, 1980; Cho & Padmanabhan, 2005; Li &Guisinger, 1991; Malhotra et al., 2009; Werner, 2002; Ghemawat, 2001). However, these finding seem to be exclusive to the outward FDI from mature markets, as outward FDI from some emerging marketsdoes not appear to avoid culturally distant countries (Quer et al., 2012; Kang & Jiang, 2012). This is presumably because the success in spanning cultural distance is contingent on the organisational integration of EMNEs, and/or because key cultural features may be largely concentrated within a single or a few nation states (Slangen, 2006).

There is a body of applied work that highlights the particularly abiding effects of shared cultural and associated long institutional legacies between Spain, Portugal and their respective former colonies. For example, Dibben et al. (2017) note that despite a number of major adjustments and shocks, post-independence HR practice in Mozambique has many similarities with that of the former metro pole; this would reflect the embedded nature of informal conventions. Broader anthropological studies highlight the degree of cross-over in ritual and ceremony from Portugal to its colonies, and the durability of the latter as they became appropriated by the colonized as their own (Jarnagi, 2011). The infusion of both Portuguese culture and colonial era associated patterns of power and inequality has been referred to as 'social parasitism', but its strengths and durability are

clear (Levine, 2016). Mahoney (2003) highlights the durability of Spanish colonial legacies, albeit that nations have diverged onto distinct paths: the regions receiving the least attention in the colonial era often ended up more prosperous. This would confirm both the predatory nature of Spanish colonial rule, but also that there were broad historical and cultural continuities at least within sections of the Spanish colonial world (Dibben et al., 2017; Mahoney, 2003).Across almost all of the Spanish and Portuguese colonial world, creole societies emerged that merged strands of local culture with shared Lusophone or Hispanic cultural features (Havikand Newitt, 2015). This would contrast with much greater heterogeneity in history and associated cultural legacies across the OECD.As the Spanish and Lusophone world both constitute large geographic areas and are associated with shared deeply embedded cultural legacies stretching back to the colonial era, this might suggest that it would be both more feasible to remain within a broad cultural comfort zone encountered within this creole worldand countries with similar cultural features(c.f. Dibben et al., 2017). There are shared cultural features that may enable 'more to be taken for granted', accordingly simplifying exchange relations (Dias Simões, 2017).

Thus, we hypothesize that:

Hypothesis 1d: *Cultural distance is more likely to deter outward FDI from Latin America than from OECD countries.*

2.4.2.Naturalresource seeking

Natural resources-seeking FDI relates to investment that exploits immobile natural factor endowments aboard such as oil, minerals and other raw materials. It provides inputs to downstream operations of the investing firms and is the central argument for backward vertical FDI. Acquiring and securing a continual supply of natural resources is one of the important drivers of outward FDI, regardless of context (Dunning, 1993; Kubny et al., 2009).

Mathews (2006) points out that emerging countries are particularly likely to use resource seeking FDI as a springboard for rapid growth. This type of outward FDI is commonly undertaken by China to secure the

supply of raw materials for national economic development purposes (Ye, 1992; Zhan, 1995). Ramamurti (2009: 400) argues that EMNEs are particularly likely to engage in 'cross border forward integration', combining activities that range from resource seeking, to processing to final sales. This is likely to set apart the outward FDI from Latin America from that of the largely developed non-Latin American OECD states. This yields the following hypothesis:

Hypothesis 2: *Outward FDI from Latin America are more likely to be natural resources seeking than their OECD counterparts.*

2.4.3. Strategic asset seeking

Strategic asset-seeking FDI occurs when firms invest aboard to create or gain access to resource and capabilities that complement their existing core competencies (Dunning, 1993). Technological capabilities have been shown to affect countries' ability to attract FDIs. While Dunning's (1993) eclectic paradigm proposes that companies seek to exploit O advantages in host countries, the strategic asset-seeking motivation gives leeway to allow for asset-augmenting investments.

Several studies argue that the one of the major forces behind the outward FDI from emerging economies is to compensate for their competitive disadvantage in terms of proprietary technology and management know-hows when competing with the mature markets(e.g., Buckley at al., 2007; Bartlett & Ghoshal, 2000; Luo &Tung, 2007; Makino et al., 2000). Investing in technology-advanced countries (e.g., North America, Europe, Japan) enables emerging countries to access intangible resources lacking and/or superior to those available in the home countries (Child & Rodrigues, 2005; Guillen & Garcia-Canal, 2009; Luo & Tung, 2007). Previous studies have documented that emerging states (e.g., China, India, Brazil)expand their international activities to acquire advanced technology and manufacturing know-hows to catch up and compete in world markets across the spectrum in particular in high-tech industries (e.g., Buckley at al., 2007; Cross et al., 2007; Ramamurti & Singh, 2009). Arbix and Luiz (2011) find that the outward FDI from Brazil has tended to favour more advanced economies, 'where they compete on an even footing with major conglomerates and have access to cutting edge technology'. Looking at the Brazilian case, Borini et al. (2012) note that knowledge and capability seeking is of

particular importance in outward FDI from emerging economies. The internationalisation process of Brazilian companies, such as Petrobras and Embraer, has also been largely driven by the intention to accumulate technological assets and capabilities (Carvalho & Goldstein, 2009). It can be argued that this is the case across Latin America, given the urgent need to catch up and overcome historical institutional impediments to the development of technological capabilities (Hall & Maffioli, 2008; Murphy et al., 1993). Hence, we hypothesize that:

Hypothesis 3: *Outward FDI from Latin America are more likely to be strategic assets (technology) seeking than OECD countries.*

2.4.4. Market seeking

Market size has been shown to be an important determinant of FDI in developed countries (e.g., Busse & Hefeker, 2007; Trevinoet al., 2008; Vodusek, 2004), suggesting that the FDI from OECD is likely to be market-seeking. The major outward sources of FDI in Latin America are Mexico and Brazil, both of which have very substantial home markets. The trajectory followed by these countries (and, indeed, Chile and Argentina) was inward led industrialisation, seeking to capitalise on relatively large home markets (Gereffi, 1990). In the past, MNEs from Latin America may have had some incentive to set up operations in neighbouring states to circumnavigate widespread import substitution rules (Trevino et al., 2002). However, as these rules have gradually been phased out, this incentive may have eroded. Overall, given that the outward FDI from Latin America has tended to be more orientated towards their home markets whereas the OECD FDI tends to locate in countries with large markets, we hypothesize that:

Hypothesis 4: *Outward FDI from Latin America are less likely to be market seeking than OECD countries.*

3. Data and methodology

3.1 Data and sample

Our sample consists of a country-year panel data set from 45 countries, 13 from Latin America and 32

from the OECD, for the period 2001-2012. The primary data are obtained from various sources, including the United Nations Cooperation on Trade and Development (UNCTAD), Institute for Research on the International Economy (CEPII) and the World Development Indicator (WDI) published by the World Bank. Information on outward FDI stock for each country was obtained from UNCTAD. Percentile ranks for control of corruption and political stability for each country were downloaded from the World Governance Indicators (WGI) compiled by Kaufmann et al (2009). Country's legal system is collected from La Porta et al. (2002). Hofstede's national cultural distance is drawn on Kogut and Singh's (1998) multidimensional measures and calculated based on Hofstede's (1983) four dimensions sourced from his website. Geographic distances were collected from the Institute for Research on the International Economy (CEPII), and the remaining country-level variables were extracted from the World Bank's World Development Indicators.

3.2 Variables

Table 1 presents the definitions and sources of all the variables used. The dependent variable (*FDI*) is the natural logarithm of outward FDI stock for each country expressed in millions of US$. It is defined as 'the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise plus the net indebtedness of affiliates to the parent enterprise' (UNCTAD). We choose to use FDI stock rather than FDI flow data for two important reasons. First, Clougherty and Grajek (2008) point out that the flow data involve repatriation of profits issues and may therefore not accurately reflect a country's foreign investment position. Second, as Hejazi and Safarian (2001) argue, the stock data help to mitigate the simultaneity issues between FDI and trade.

The vector of explanatory variables includes several time-invariant and time-varying factors. We cluster these variables into those related to:(i) institutional distance, (ii)natural resource,(iii) strategic assetsand (iv)market seeking. Within theinstitutional distance set of variables, we measure legal distance (*LEGD*) as a dummy variablethat equals one if the host and the home country belong to the same legal family, and zero otherwise. We also measure political distance (*PD*) as the absolute value of difference in the political stability and absence of violence percentile rank (*PS*) between the host and home country; where *PS* captures 'the

perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including political violence and terrorism', with higher values indicating lower political risk. We also define corruption distance (*CORD*) as the absolute value of difference in the control of corruption percentile rank (*COR*) between host and home country, where *COR* index measures the perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the 'capture' of the state by elites and private interests. The percentile rank indicates the percentage of countries worldwide that ranked lower than the indicated country, with a higher value indicating better governance. Finally, the IB literature commonly uses Hofstede's (1983) four cultural dimensions to measure the cultural distance (*CD*) between the host and the home country. Unfortunately, the Hofstede's survey results are not available forall countries in our sample and the use of Hofstede's index reduces the number of country-pair yearly outward FDI observations by 40% (from 18,057to 10,797). In addition to data unavailability, the Hofstede's index has received significant criticism, in that it simplifies and conflates quite complex cultural differenceswithin and between regions (e.g., Kirkman et al., 2006; Leung et al., 2005; Shenkar, 2001). For these reasons, and following Mian (2006), we use also geographical distance (*GD*), defined*GD*as the natural logarithm of physical distance between the capital of the home country and the capital of host country, as a proxy for culture. In the case of Latin America, there will be a comfort zone of broad cultural similarity, up until the maximum confines of the region; in OECD, there will be a very much smaller geographic comfort zone of close cultural proximity beyond national boundaries (Kymlick&He, 1995). In other words, beyond a certain geographic distance, Latin American MNEs will enter very different cultures, and will face greater challenges, than within their zone of familiarity. In contrast, in OECD, as the very act of going abroad is likely to involve coping with cultural distance (and related linguistic barriers and differing historical legacies), moving far afield should be less daunting. However, as a robustness check, we also use the Hofstede index, looking at the Latin American and OECD markets it encompasses.

With respect to the natural resource, strategic asset and market seeking behaviour, we use the host country's ores, metals and fuel(*NATR*) exports expressed as a percentage of merchandise exports to assess the extent to which host country's natural resource endowments attract FDI. We use the host country's

ITC(information, communication and technology) goods (*HTCH*) exports as percentage of total exports to investigate the importance of strategic asset (i.e., knowledge and capability) on FDI location decisions. Finally, we use the host country market size (*GDP*), measured as the natural logarithm of the gross domestic product of the host country expressed in current US$, to investigate market seeking behaviour.

In addition to the explanatory variables, our regressions also include a set of control variables, which are shown by existing studies to affect outward FDI. These variables are: a tax haven dummy which equals one if the host country is a tax haven and zero otherwise; the market size of the home country (*GDPO*), defined as the natural logarithm of the gross domestic product of the home country expressed in current US$; the host country's trade openness (*TO*), defined as the sum of exports and imports of goods and services relative to *GDP*; the percentage return on the official exchange rate of the host country's currency relative to the US$ (*FX*); and the natural logarithm of the number of telephone lines per 100 people in the host country (*TEL*) as a proxy for physical infrastructure.[1]

Insert Table 1 about here

3.3 Methodology

Our analysis is based on a sample of 45countries, 13 from Latin America and 32from OECD, over the period 2001–2012[2]. We begin our analysis by estimating the following random-effects model on our county-year panel data set:[3]

$$FDI_{ijt} = \alpha_0 + \alpha_1 Latin + \alpha_2 FDI_{ijt-1} + \sum \gamma_k\, INDPEN_{ijt-1,k} + \sum \gamma_{k,Latin}\, INDEP_{ijt-1,k} * Latin +$$

$$\sum \gamma_f\, Control_{ijt-1,f} + \alpha_{ij} + \mu_t + \varepsilon_{ijt} \quad (1)$$

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[1] Flores and Aguilera (2007) use a similar proxy. Specifically, they use the total number of phone lines per thousand inhabitants as a measure of physical infrastructure.

[2] The UNCTAD's Bilateral FDI Statistics (https://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx) does not provide FDI data for sample countries beyond the year 2012.

[3] The Breusch and Pagan Lagrange-multiplier tests suggest that random-effect models are better suited for our analysis. However, the use of pooled OLS regressions does not alter our conclusion (details are available upon request).

where the subscripts i, j and t represent the home country, the host country and the year, respectively; $INDPEN_{ijt,k}$ is a vector of independent variables; $Control_{ijt,f}$ is a vector of control variables; $Latin$ is a dummy variable with a value of one for outward FDI from Latin America, and zero otherwise; the estimated parameter vectors γ_k and γ_f capture the effect of each factor in the vectors $INDPEN_{ijt,k}$ and $Control_{ijt,f}$, respectively, on the outward FDI, while the parameter vectors $\gamma_{k,Latin}$ are used to gauge whether the impact of these factors on outward FDI is significantly different across the Latin American and the OECD countries; and ε_{ijt} is the residual term.

Equation (1) includes year dummies, μ_t, to control for unobserved time-variant factors, such as expectations, trust and social attributes or common shocks, which may affect FDI flow (Müller&Uhde, 2013). It also includes α_{ij}, which represents country-pair random effects. We choose the random effects estimator because some of our hypotheses relate to time-invariant variables and the 'within transformation' or 'time-demeaning' process associated with controlling for the country-pair fixed effects removes all time-invariant variables of interest.[4]Following Müllerand Uhde (2013), we also use the multi-clustering approach of Cameron et al. (2011) and Cameron and Golotvina (2005) to include heteroskedastic-robust standard errors clustered at the country-pair level. Finally, we lag all of the time-varying explanatory variables in our regressions by one year to mitigate reverse causality (e.g., Herrmann &Mihaljek, 2013; Khoury & Peng, 2011).

An important weakness of Equation (1) is that it does not fully resolve the concerns relating to omitted variable bias, simultaneous endogeneity and dynamic endogeneity. The omitted variable bias results from excluding relevant explanatory variables in the regression, which would cause the error term to be correlated with the explanatory variables. This issue is commonly addressed using within-groups or fixed effects estimation technique. However, this approach does not allow us to include time-invariant explanatory variables in the regression and does not address simultaneous and dynamic endogeneity issues. Simultaneous endogeneity arises when one or more of the explanatory variables are jointly determined with the dependent variable. In our case, outward FDI can affect many of the host country's characteristics, including GDP, technological

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[4] Cuervo-Cazurra (2008c) and Bertrand et al. (2004) choose to use a random effect panel model for the same reasons.

development and trade openness. This type of endogeneity is commonly addressed using system equations (i.e., two-stage (2SLS) and three-stage (3SLS) least squares regressions). However, this approach requires an external exogenous instrument for every endogenous variable. Finding such instruments is a difficult task; and even when such instruments are available, the 2SLS and 3SLS do not correct for dynamic endogeneity. We believe that dynamic endogeneity is relevant here because previous FDI might induce more FDI subsequently, i.e., once a MNE discovers that investment in a given country is safe and profitable, other MNEs of the same home country may follow suit. To adjust for these potential dynamic effects, the lagged values of outward FDI need to be included on the right-hand side.

To correct for all three types of endogeneity discussed above, we use dynamic generalised method of moment estimation (dynamic GMM) (Arellano & Bover, 1995; Blundell &Bond, 1998). The dynamic GMM consists of two sets of equations, which are specified as follows:

$$FDI_{ijt} = \alpha_0 + \alpha_1 Latin + \beta FDI_{ijt-1} + \sum \gamma_k INDPEN_{ijt,k} + \sum \gamma_{k,Latin} INDEP_{ijt,k} * Latin +$$

$$\sum \gamma_f Control_{ijt,f} + \alpha_{ij} + \mu_t + \varepsilon_{ijt} \quad (2)$$

$$FDI_{ijt} - FDI_{ijt-1} = \beta(FDI_{ijt-1} - FDI_{ijt-2}) + \sum \gamma_k (INDPEN_{ijt,k} - INDPEN_{ijt-1,k}) +$$

$$\sum \gamma_{k,Latin} (INDEP_{ijt,k} - INDEP_{ijt-1,k}) * Latin + \sum \gamma_f (Control_{ijt,f} - Control_{ijt-1,f}) + (\varepsilon_{ijt} - \varepsilon_{ijt-1}) \quad (3)$$

The level Equation (2) captures the dynamic relationship between the outward FDI and our explanatory variables. The first-differenced Equation (3) eliminates unobserved time-invariant heterogeneity among countries. In the system GMM, we estimate the difference Equation (3) using lagged values of level observations as instrument variables and use lagged first-differenced observations as the instruments for the level Equation (2) (Blundell and Bond, 1998). With the system GMM estimator, we can eliminate any potential bias that arise from unobserved heterogeneity, simultaneity and dynamic relationship between FDI and explanatory variables, and achieve an efficient estimation.

We apply the system GMM estimator jointly to Equations (2) and (3) using the lagged first differences and the lagged levels of the dependent and endogenous variables as instruments. We assume that all of the explanatory and control variables, except for year dummies (μ_t) are potentially endogenous. To investigate the appropriateness of our dynamic GMM estimations, we use the Arellano-Bond's (AR(2)) autocorrelation test which tests for the absence of second-order autocorrelation in the residuals and Hansen test of over-identification to verify the validity of our instruments.

4. Results and discussion

4.1 Descriptive statistics

Table 2 presents the outward FDI stock (in millions of US$) of the sample countries over the study period. Panel A shows that outward FDI stock from Latin American countries has increased steadily over time, with a 703% (from $62,182million to $499,313 million) increase reported between the years 2001 and 2012. The outward FDI stock varies considerably across Latin American countries. Brazil, Mexico and Chile are the three largest players in the region, representing over 90% of the total Latin American outward FDI stock in 2012, while the contribution of El Salvadorto the region's total outward FDI stock is negligible. Panel B shows that the outward FDI from OECD also increased over the study period, from $5,130,510 million in 2001 to $15,984,242 million in 2012. However, this represents a smaller increase (212%) when compared to Latin America (703%). The UStops the list, with outward FDI stock valued at $4,436,888million in 2012, followed by France at $1,555,133 million.

Insert Table 2 about here

Table 3 presents the top ten host countries for outward FDI stock over the study period. Panel A, which presents the data for outward FDI from Latin America, shows that Argentina, the British Virgin Islands, the Cayman Islands, Spain and the US were among the top ten every year during the period 2001–2012. Panel B

reports the top ten destinations for outward FDI from the OECD countries. It shows that Belgium, Canada, France, Germany, Luxembourg, Netherlands, Switzerland, the UK and the US were among the top destinations in every year of our sample period.

Insert Table 3 about here

Table 4provides descriptive statistics and the correlation coefficients of our main variables. The first two columns of the table report the means and medians of the dependent and independent variables. The average (median) outward FDI stock associated with the Latin American subsample over the study period, $763.41million ($6 million) is significantly smaller than the $4,549.76 million ($47.47 million) observed in the OECD sample over the same period. With the exception of the return on the foreign exchange rate (*FX*), the paired t-test (Mann-Whitney test) suggests that the average (median) values of the individual determinants of outward FDI from Latin America are significantly different from those observed in the OECD sample. These differences are more apparent in the correlation between the dependent (outward FDI stock) and independent variables. Specifically, the pair-wise correlations suggest that both Latin American and OECD countries tend to locate their FDI close to their home markets and in countries with similar legal systems as their own, and in large markets and good quality infrastructure. However, FDI from Latin America seems to have stronger preferences for tax heavens but are less attracted to countries with a greater liberalization of trade regimes and technologically advanced countries than their OECD counterparts. Furthermore, OECD countries have stronger preference to locate their investment in countries with similar political systems and corruption environment to their own than their counterparts from Latin America. However, these findings need to be interpreted with caution, as we do not yet control for other factors that may affect the FDI outflow.

The remaining columns of Table 4 report the pair-wise correlations between the independent variables. These correlations are generally small (<0.5), but there are a few exceptions. For example, we observe a highly positive correlation between political distance (*PD*) and corruption distance (*CORD*) in both Latin America (0.55) and OECD(0.59). This is a relationship that is well established in the literature (e.g., Mo, 2001). In performing tests to determine the most appropriate model, we considered the possibility of multicollinearity.

The variance inflation factor (VIF) analysis indicates that including highly correlated variables in the same regression models does not yield multicollinearity. Specifically, the mean VIF in our regressions is shown to be less than 2.[5]

Insert Table 4 about here

4.2 Results from the random-effects model

Table 5 contains the regression results for the determinants of outward FDI. Panel A reports the results from the random-effects estimation. Models (1) and (2) present the results from estimating Equation (1), without interaction terms, for the subsamples of outward FDI from Latin America and that from OECD, respectively, while Model (3) presents the full sample results.

The first four explanatory variables and their interactions with the *Latin* dummy are related to the hypotheses on institutional distance. In Panel A, the coefficient on legal distance (*LEGD*) is significant in Models (2) and (3), indicating that the home-host country differences in legal systems affect OECD's outward FDI location decisions. However, the insignificant coefficient on *Latin*LEGD* in Model (3) indicates that legal distance does not have a differential impact on the outward FDI from Latin America and OECD. Thus, hypothesis 1a is not supported.

The coefficient on political distance (*PD*) is insignificant in Models (1) and (2), implying that the home-host country differences in political environments are not relevant to FDI location decisions for both Latin American and OECD. In Model (3), *PD* and *Latin*PD* are also not significant, suggesting that political environment distance is not a factor distinguishing the location decisions of Latin American outward FDI from that of OECD. Therefore, is also rejected.

The significantly negative coefficient on the corruption distance (*CORD*) in Model (1) indicates that differences in the corruption level between the host and home country deter outward FDI from Latin America.

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[5] We repeated our analysis, ensuring that highly correlated variables were not included in the same regression. The results, which are available upon request, were consistent with our reported conclusions.

In Model (3), *Latin*CORD* is significantly negative, suggesting that outward FDI from Latin America is more likely to invest in countries with similar corruption culture to their own. Hence, hypothesis 1c is also rejected.

Geographical distance (*GD*) is negatively significant in Models (1) through (3),suggesting that both Latin American and OECD prefer to invest close to their home markets. However, the significantly negative on *Latin*GD*in Model (3) implies that Latin American countries are more likely to locate their investments close to their home markets than their counterparts from OECD countries. Thus, our hypothesis 1d is confirmed. In terms of economic impact, Model (3) suggests that a one percent increase in *GD* is associated with 0.176% less outward FDI from Latin America than OECD countries. This finding may reflect the close transcontinental historical ties and broad institutional compatibility in Latin America. By investing regionally, firms have broad knowledge of the regulatory ecosystem, and the viability of specific solutions for resolving systemically imposed problems and building on extant complementarities (e.g., Hall and Soskice, 2001; Arregle et al., 2018). In addition, this would confirm the view that foreign companies mitigate their business risk by investing in locations geographically close to their home markets in culturally close countries (Lecraw, 1977; Zhan, 1995).

As noted above, for robustness purposes, we also use Hofstede's four dimensions of culture to estimate the cultural distance; using this measure substantially reduces our sample size.[6] In un-tabulated results, we show that Hofstede's cultural distance (*CD*) is insignificant in the subsample of outward FDI from Latin America and significantly positive in the OECD subsample.[7]Consistent with the findings on geographic distance in Table 5, the coefficient on *Latin*CD*in the full sample regression is significantly negative, implying that Latin American countries are more likely to invest in countries with similar cultures to their own than their OECD counterparts. As a further check, we also use common language (*CL*), as an alternative proxy for cultural distance (details are not reported for brevity). *CL* is positive and significant in the subsample regressions, implying that FDI from both Latin American and OECD prefer to target countries that speak their home language. In the full sample regression, coefficients on *CL* and*CL*Latin* are significant and positive, suggesting that Latin American

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[6] Our sample size drops significantly by 39% (from 17,542 to 10,656 observations), when we use Hofstede's cultural distance measure (*CD*).

[7] Regression results for cultural distance are available upon request.

countries are more likely to invest in countries with the same linguistic background to that of their home country than OECD.[8]Thus, hypothesis H1d is also supported when *CL* is used as a proxy for cultural distance.

Panel A also reports the empirical evidence for the hypotheses relating to the resource, strategic asset and market seeking behaviour of the outward FDI. The coefficient on ores, metals and fuel exports (*NATR*) is only significant in Model (1), suggesting that Latin American countries are not attracted to countries with natural resource endowments in FDI location decision. In Model (3), the coefficient on *Latin*NATR* is significant negative, implying that Latin American FDI is less likely to be a resource seeking than its OECD counterpart. Similar results are obtained when we add agricultural raw material and food exports to the numerator of *NATR* (details are omitted for brevity). Thus, hypothesis 2 is rejected.

ITC goods exports (*HTCH*) is insignificant across all model specifications, indicating that neither Latin American nor OECD countries are attracted to greater technological capabilities in their FDI decisions. In Model (3), *Latin*HTCH* is insignificant, implying that strategic assets-seeking does not pose differential impacts on outward FDI from Latin America and OECD countries. Therefore, hypothesis 3 is rejected.

The significantly positive coefficients on the market size of the host country (*GDP*)in Models (1) and (2) imply that both Latin American and OECD countries prefer to locate their FDI in countries with large markets. In Model (3), *GDP* is also positively significant, but *Latin*GDP* is significantly negative, indicating that FDI from Latin America is less likely to be market seeking than their OECD counterparts. Thus, hypothesis 4 is supported. In terms of the economic significance, the coefficient *Latin*GDP* implies that a one percent increase in the host country GDP is associated with 0.057% less outward FDI from Latin America than OECD countries.

As for the control variables, the subsample results in Panel A show that *THVN* is positive, but only significant for the subsample of OECD countries and the full sample. This implies that OECD countries are more likely to invest in tax havens. We also find that the size of the home market (*GDPO*) is significantly positive in Models (2) and (3), consistent with the view that large economies have more firms that are positioned to expand internationally and therefore have more outward FDI (Ajami & BarNiv, 1984; Grosse

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&Trevino, 1996).The trade openness (*TO*) is significantly positive in Models (2) and (3), but insignificant in Model(1), implying that the outward FDI from OECD is likely to locate in countries with greater liberalisation of trade regime and propensity to export. Finally, the country's infrastructure proxied by telephone line (per 100 people) (*TEL*) is statistically significant in the OECD subsample, implying that the quality of infrastructure affects the outward FDI from OECD countries.

Insert Table 5 about here

4.3 Results from system GMM

As discussed in Section 3, the random-effects estimation does not fully address the endogeneity arising from omitted variables, simultaneous endogeneity and dynamic endogeneity. Several studies show that failure to correct for these endogeneity concerns can lead to wrong inferences (e.g., Abdallah et al., 2015; Shaver, 1998; Villalonga, 2004). Thus, we apply system GMM estimator jointly to Equations (2) and (3) using a combination of lagged and first differenced dependent and endogenous variables as instruments. The results are reported in Panel B of Table 5. Models (4) and (5) present the results for the subsamples of Latin American and OECD countries, respectively, while Model (6) report the results for the full sample. For all the models in Panel B, Arellano-Bond's test indicates the absence of the second order-autocorrelation (AR(2)) in the residuals, indicating that the assumptions of the system GMM model hold. In addition, the Hansen test of over-identification fails to reject the hypothesis that the selected instruments are exogenous, implying the validity of the instruments. The significantly positive coefficient on the lagged dependent variable (FDI_{ijt-1}) suggests that past FDI induces more FDI subsequently and confirms the presence of dynamic effects (i.e., dynamic endogeneity).

Panels A and B of Table 5 show that, in many cases, the random-effects and system GMM estimators yield similar conclusions. Specifically, consistent with our earlier findings, the system GMM supports hypothesis 1d and reject hypothesis 1a, hypothesis 1c, hypothesis 2 and hypothesis 3. However, there are two differences between the random-effects and system GMM results. For instance, the results from the random-

effects estimator supports the prediction of hypothesis 4, while the insignificantly negative coefficient on *Latin*GDP* in the system GMM (Panel B) implies that hypothesis 4 is not supported after controlling for endogeneity. More importantly, after addressing the endogeneity concerns,hypothesis 1b is accepted. Specifically, the positively significant coefficient on *Latin*PD* in model (6) indicates that Latin American FDIis more likely to be located in countries with different political systems to their own, perhaps because they are used to vagaries imparted by instability and changes driven by powerful actors from abroad (Zhang, 2019).

4.4 The propensity score matching (PSM) approach

So far, our results suggest that the behaviour of the outward FDI from Latin America exhibits a significantly difference from that of OECD. While our results hold in a large sample of countries from Latin America and OECD, the unobservable heterogeneity could be taken care of only if we narrow down the OECD countries to a more comparable group. Therefore, in addition to system GMM estimation, in this section, we follow previous studies (e.g., Li et al. 2017; Mohr et al. 2020) and employ propensity score matching (PSM) method to re-estimate our baseline model. The PSM method controls for the selection based on observable country characteristics and warrants the casual inference.

The basic idea of PSM is to identify a matched sample of OECD countries that show similarities with Latin American countries. The treatment group consists of 13 Latin American countries, while 32 OECD countries are included in the control group. Matching proceeds in two steps. We first estimate the probability that a country belongs to the Latin America region. This probability is obtained from a logit regression on a set of country-level variables (i.e., Tax Heaven, Export, GDP, Trade Openness, Return on Foreign Exchange Rate and Physical Infrastructure). Second, we use two-to-one nearest matching algorithm to match each treatment observation to control observations based on the propensity scores from the logit regression. We further require that the maximum difference in the propensity scores should not exceed 0.01 in absolute value. To check the matching balance, we also conduct a diagnostic test where we estimate the difference in country-level characteristics between treatment and control observations after the matching (see Appendix A). The comparison indicates no significant differences across these matched treatment and control groups.

Based on the matched sample, we re-estimate Equation (1) and the results are reported in Panel C of Table 5. Consistent with our baseline results, the coefficients on interaction terms (*Latin* Corruption distance* and *Latin* Geographic distance*) are still negative and statistically significant at the 5% level, suggesting that outward FDI from Latin America is more likely to be locate in countries closer to home or in countries with familiar corruption environment than that from OECD.In addition to institutional distance, the result on natural resource seeking strategy still holds in the matched sample, as indicated by the negative and statically significant coefficient on *Latin* Ores, metals, fuel exports*. This indicates that Latin AmericanFDIis less likely to be resource seeking, relative to its OECD counterpart. Overall, our results are robust to the PSM method.

5 Discussion and Conclusion

This study investigates the differences in the behaviour of outward FDI between Latin American MNEs and their OECD counterparts. Using a sample of 43 countries, 13 from Latin America and 32 from the OECD, over the period 2001–2012, we highlight several important differences in the factors affecting outward FDI from Latin American and OECD countries. We encountered similarities and differences between outward FDI from Latin America and that from OECD countries in terms of both asset exploitation and seeking. Contrary to the hypothesis that developing markets are willing to take riskier FDI, we found that Latin American FDI exhibits a greater regional orientation(e.g., Kim &Aguilera, 2015). Most Latin American countries have, as a group, very much more in common than their OECD counterparts, reflecting not only shared experiences of inward-orientated industrial development, leading to a focus on products and services particularly relevant to customers at home and, potentially, in neighbouring states, but also very much longer standing shared historical legacies, leading to common patterns of institution building.

Our study revealed that MNEs from Latin America are more likely to invest in countries that are culturally close to their own, close geographical locations and countries that speak their home language than FDI from OECD countries. Most countries in the Latin American region have strong commonalities around colonial experience, language, and in institutions; this means that there are many familiar investment outlets abroad. Hence, in venturing abroad, Latin American MNEs can access a relatively large number of culturally

familiar creole societies, with broad shared cultural features, allowing more to be 'taken for granted'. As this is a common feature across almost all of Central and Latin America (notable exceptions being Belize and the Guineas), but much less common elsewhere in the world (with the notable exception of the former Lusophone African countries, and, to some extent, the former colonial metro poles), this would mean that there is some correlation between cultural and geographical proximity.

In contrast, there is much greater diversity in these areas across OECD countries, which means that internationalizing firms are likely to have to master the challenges of operating in unfamiliar cultural, institutional and linguistic domains much sooner. Not only is Latin American FDI concentrated in itsown region, but it is also worth noting that there is a considerable body of case-study-based evidence that the outward FDI from Brazil tends to target Angola and Portugal, both Lusophone countries with which Brazil shares a common language and has close historical ties (Borini& Fleury, 2009; Borini et al., 2009; Carvalho et al., 2010).In contrast, we find that Latin American countries are more likely to invest in regions withdifferent political environments to their own, presumably reflecting the extent to which they are more likely to have direct experience of political crises and instability in their countries of origin than their OECD counterparts, and, hence, are better equipped to navigate political uncertainties.

Compared to OECD counterparts, there is some evidence (i.e., in terms of the GMM estimates) that FDI from Latin American tends to invest in regions with different political environment to their own. This might reflect the extent to which they are more likely to have direct experience of political crises and instability in their countries of origin than their OECD counterparts, and, hence, are better equipped to navigate such environments. Moreover, political instability can mean many different things: seemingly similar waves of protests may involve very different interest groupings, an example being elite or middle-class protests in Venezuela and pre-Bolsonaro Brazil versus those of the poor in Honduras and Mexico. Those with insider knowledge of the region are more likely to be better equipped to decode such protests and reach better-informed conclusions on what they may mean for future political direction and order. Finally, there is some evidence that FDI form Latin America is less likely to be resource seeking, and more likely to invest in countries with similar corruption environments. This former reflects rich natural resource endowments and agricultural potential in

major Latin American sources of outward FDI such as Brazil and Argentina, and the latter indicates broadly similar nature of corruption across Latin America due to shared cultural, political and economic legacies (Manzetti & Blake, 1996).

While the springboard theory predicts a higher recourse seeking motives of developing market FDIs, our study finds the outward FDI from OECD is more likely to be resource seeking than its counterpart from Latin American. This may reflect the rich natural resource endowments – and agricultural capabilities - of major Latin American outward investors such as Brazil and Argentina, and, to a lesser extent, Mexico.

5.1 Theoretical implications

At a theoretical level, this study highlights the consequences of institutional familiarity and the shared formative historical experiences. Within Latin America, there is a shared history of the widespread dispossession and extermination of indigenous peoples, slavery, latia fund as, and predatory elites (Sokoloff &Engerman, 2000). This may have left an abiding legacy of uncertainty and corruption, but to local firms that are habituated to such challenges are less likely to find them insurmountable. In other words, a reluctance to venture further afield may be less due to a liability of foreignness, but a comforting familiarity with what is close to home. This study finds that the latter is a specific feature of the outward FDI from Latin America, and not shared by its counterpart from OECD. Moreover, the benefits conferred by knowledge of formal and informal regulation and known complementarities may have led to firms from the region continuing to favour it as an investment destination; coping strategies refined at home may be particularly appropriate to the region, but not necessarily further field.Again, shared cultural features across the Lusophone and Hispanic creole world (Havik and Newitt, 2015) makes for a very large cultural comfort zone, simplifying relationship building.

There has been much debate as to dominant institutional forms and capitalist diversity within emerging markets. On the one hand, it has been argued that there is much in common. This would include the bifurcation between SMEs and the informal sector, and their larger counterparts: the former are much more lightly regulated than the latter (Ciftci et al., 2019; Nölke, 2010). More broadly speaking, institutions are poorly coupled and their coverage uneven, and there is a prominent role for family ownership (ibid.).

On the other hand, there have been attempts to identify distinct capitalist archetypes to encompass different parts of the developing world, each with very distinct features (Wood & Frynas, 2006; Witt & Redding, 2013). Where Latin America further differs from most other emerging markets is the nature of elite formation and the recurring power of landowners and/or militarists, which, in most instances, has undermined the potential for the emergence of a genuinely developmental state with an agenda of broad-based development (Cannon, 2016). In turn, this means that firms within such contexts are less able to benefit from trickledown or spill overs, and or the objective picking of national champions (as was encountered in key Asian economies), but are adept at coping with political capriciousness. In turn, this seems to impact on where Latin American MNEs go, and their relative capacity to cope with adversity in specific areas. In the case of Latin America, the predominant archetype used is that of the *Hierarchical Market Economy*, which is seen as distinct from other types of emerging market capitalism (Schneider, 2009).As noted above, what sets the latter apart, inter alia, are complementary relations between MNEs and local diversified business groups (family-owned conglomerates): these relations involve both working together to reinforce those aspects of the local corporate governance regime that suits their interests (Schneider, 2009). In turn, this eases their transaction costs. Such complementarities are not visible in other types of emerging market capitalism (see Wood and Frynas, 2006). This might explain the preference of Latin American countries for investing in the region: familiarity in working with diversified business groupings and the benefits of such cooperation would make regional investment particularly attractive.

There is also some evidence to suggest that family owned conglomerates prefer to enter systems with a high degree of familiarity (Velez-Ocompo et al., 2017), perhaps on account of the specific firm needs and advantages that type of ownership confers in HMEs (c.f. Schneider, 2009). If HMEs have systemic features that support and sustain of family ownership, the latter may result in a greater reliance in "heritage assets", such as family members and resources to which there is a sentimental attachment (Kano and Verbeke, 2018). In turn, this may impact on global staffing (as it is harder to dispassionately deploy key managers around the world, and not all that is sentimental is readily importable. Again, this might explain a preference for the near abroad. In

contrast, in OECD countries, with a much greater heterogeneity in dominant ownership forms, reflecting much greater institutional diversity, such preferences are less likely to predominate.

The specific characteristics of HMEs may help explain technology seeking behaviour is less common among Latin American firms; the literature on HMEs alerts us that Latin American firms tend to be concentrated in lower technology, with gaps in high technology capabilities being filled by incoming MNEs from further abroad. Although low technological capabilities might result in pressures to augment them, Latin American family owned conglomerates tend to be concentrated in areas where technological advantages matter less (Schneider, 2009). In other words, such firms have coped with systemic limitations in skills and technologies in a manner that makes knowledge seeking less important. Again, rich natural resource endowments in many Latin American states have been matched by institutions geared to exploiting them to the benefit of elites (Ocampo, 2017; Raftopoulos, 2017); resource seeking further abroad is less attractive without these insider advantages.

Hence, at a theoretical level, the findings of this study would suggest that rather than a single type of developing world capitalism, there are many, and that each offer specific (even if compensatory or less than fully functional) complementarities that may hold out very specific advantages, and, more specifically, the features of HMEs may explain the investment choices of Latin American MNEs. The workings of such complementarities may be less visible to outsiders, deterring Latin American countries from venturing further afield. In contrast, there is much greater and more clearly demarcated capitalist diversity between the OECD states. Hence, OECD firms that invest within this group will not necessarily have the same depth of institutional familiarity and knowledge of known complementarities, as regionally focused Latin American FDI might have of their 'own' region. However, and as noted above, experience in dealing with diversity may bring with it advantages in its own right.

In summary, we encountered both institutional and cultural effects, challenging both assumptions of shared effects of institutional immaturity or fluidity across the developing world, and highlighting the persistent effects of a shared creole culture within the Hispanic and Lusophony worlds on firm practices. Economic theory depicts institutions as conferring rules, and culture norms; one type of regulation may help offset shortfalls in

another (Belloc and Bowles, 2017). This may explain why firms may come to rely on rules set by the latter, and hence, may be reluctant to venture where norms may be different to those they have become accustomed to relying on. In turn, this would help explain why actors often do not pursue what at first might appear their economic best interests (c.f. Leslie, 2000); decisions based on the operation of 'hidden' rules may outweigh advantages conferred by visible ones. Again, the comparative institutional literature highlights on informal ties and embedded ways of doing things may underpin the competitiveness of firms based within a particular region (Weiss, 2020).

At the same time, this highlights that the extent to which the relative attractiveness of particular contexts to specific categories of investor cannot be reduced to relative liberalization. There are many different routes to national competitiveness that are bound up with complex assemblies of institutions and associated practices which have evolved over many years, and which, in order to persist, will have had to have imparted at least some benefits to key societal actors. Active developmental states that are willing to champion the interests of national MNEs may help the latter to cope better in unstable circumstances abroad, opening up opportunities that are denied to those originating from more laissez faire states.

Finally, strategically orientated existing theories, most notably, springboard theory, does not seem to hold true in the case of Latin American FDI. This might suggest the need to more fully locate such theorizing within the wider political economy, building on those aspects that are compatible with the literature on comparative capitalism (e.g., on likely patterns in government policy) in order to provide more nuanced explanations as to why such effects are more pronounced in the case of FDIfrom some countries rather than others.   The literature on institutional entrepreneurship suggests that specific actors may actively seek alternatives to the present order, either in working for change in it, and/or devising routes around known obstacles (Crouch, 2005). Hence, firms may make strategic choices that do not conform to known existing patterns (devising outward investment strategies of their own), or may only have indirect effects on FDI strategies (for example, in concentrating on changes in governance and regulation at home.

5.2 Implications for Managerial Practice

Although it is often assumed that there are optimal recipes for managerial practice in a globalised world, with closely inter-connected markets, following broadly similar regulatory trajectories, the study highlighted the persistence of great diversity in the choices made by firms. Clearly, firms do not simply represent broadly interchangeable vehicles for the optimization of shareholder value, but entities having very distinct characteristics designed to best cope, and draw the most advantage from, the environments in which they operate. Although it is often simplest to try and view all in economic terms, this study highlights the intersection of the economic, and the social and cultural. This would suggest that, whilst difficult to cost accurately, accumulated bodies of insiderknowledge represent an important basis of competitiveness (Aoki, 2010).Although this paper deals with managerial choices, the persistent impact of shared cultural features associated with Iberian type creole societies would both highlight the challenges facing expatriate managers from different backgrounds, and the value of leveraging the insider knowledge of the rank and file, not only in terms of internal operational matters (Peltokorpi, 2020), but also in building external relations with third parties located within the same broad cultural and institutional spheres. Within Latin America, firms tend to opt for familiar investment environments in order to capitalise on this knowledge. Commonalities in broad institutional features and cultures across the region allow Latin American MNEs to relatively operate within quite a wide range of countries that have significant variations in market size. Regulation comprises not only formal, relatively easy to decode rules, but informal norms and conventions that may be rather more difficult for outsider firms to decode. At the same time, firms already habituated to operating in many different institutional environments may have an in-built advantage in entering a completely new context; within OECD, there are fewer examples of regional institutional similarity, reflecting divergent historical legacies. Rather, there is much more regional diversity in capitalisms along national lines and this might partially explain the relative success of OECDMNEs on the world stage.Again, this would confirm that operating in each region brings its own challenges to managers and confers unique advantages.

At the same time, case study evidence would suggest that Latin American MNEs are not adverse to venturing further afield once they have exhausted the opportunities of the near abroad. Mexico's CEMEX is one

of the largest cement producers in the world. Here, it followed the conventional path of initially focusing on Latin America (Lessard and Lucia, 2009). However, the Asian financial crisis allowed it to make as series of acquisitions at reduced prices; this included capitalising on privatizations of national cement firms. This represented a step change in the organisation (Casanova et al, 2009). Leveraging the advantages that came from a greater range of international experience, CEMEX then made high profile acquisitions in the US (Southdown) and the UK (RMC Group) (Ozcan et al., 2018; Lessard and Lucia, 2009). This was followed through moves into continental Europe, but been much more cautious in engagement with large non-Latin American emerging markets, such as China and India (Casanova et al., 2009). Brazilian aerospace conglomerate, Embraer, initially focused on exporting finished products. However, the Portuguese government's decision to privatize OGMA, an aircraft maintenance and repair concern, lead to Embraer expanding into Europe. As with CEMEX, the first wave of expansion further afield was again largely driven by a relatively unusual opportunity, although it has been argued that close ties between Portugal and Brazil gave it the inside track (Casanova et al., 2009. In 2002, it established a final assembly facility for regional jets in China, as a joint venture, Harbin Embraer Aircraft Industry; this helped offset risks from an overreliance on the US market, but Embraer has still battled to make market headway in China (Torres, 2018; Casanova et al., 2009). Mexican food giant Bimbo again initially concentrated on Latin America, moving into the US and Canada, but initially concentrating on the Latin American expatriate market (Sheth et al., 2020). Once more, international expansion was very focused and centring on very specific opportunity (Casanova et al., 2009), as it was much more cautious regarding moves further afield without a high degree of familiarity with customer tastes. Finally, it ventured into China, but this was preceded by very extensive research as to how Bimbo's Mexican style food products could be adjusted to meet Chinese tastes (ibid.; Sheth et al., 2020). This is in line with the core finding of this research, which suggests that Latin American MNEs prefer to locate closer to their homes and that greater geographic diversification seems much less common, and may be reliant on the ability of managers to spot very specific opportunities (e.g. bargain privatizations; expatriate consumers).

It is commonly held that political and economic instability is bad for business. Yet, many firms are seemingly undeterred from operating in such contexts. In the end, it is experience of coping with specific types

of instability and the challenges that this brings with it that matters. Despite much talk about globalization and policy convergence, it is clear that the feasible choices open to managers are closely bound up with setting: familiarity and the ability to build on established relationships with known partners seems to be particularly important for Latin American MNEs. This would highlight the value of close ties, rather than arm's length contracting in relations with suppliers, peer firms and customers, especially for firms from regions where institutional coverage is uneven, and at times unpredictable.

5.3 Policy implications

Whilst the dominant conventional wisdom within the policy community, as espoused by international financial institutions (and most notably in the World Bank's *Doing Business* reports), is that investors have broadly similar rationales and concerns, and are attracted or deterred by similar basic sets of policies and institutional features (Seyoum and Ramirez, 2019; Demirbag et al., 2015; Wood et al., 2016), this study has found both similarities and differences in the choices made by Latin American MNEs in comparison to their counterparts in OECD. In other words, MNEs cannot be treated as a uniform group with a similar overriding preoccupation with private property rights. Our results also suggest that it is not so much legislation that matters, but how it operates in practice and the degree to which it can be circumnavigated. The FDI choices appear to be guided by sets of choices moulded by both the country of origin and the region in which they operate. This, in turn, would indicate that neo-liberal reforms (or, for that matter, simply tax cuts) may be unlikely to result in the inward FDI cornucopia hinted at in the more optimistic strands of the neo-liberal literature (Demirbag et al., 2015; Wood et al., 2016). Indeed, corruption or political instability (which may seriously undermine private property rights) does not appear to deter Latin AmericanFDI. Quite simply, this study would indicate that policy interventions aimed at fostering inward FDI need to be more nuanced and take account of regional dynamics and the multifaceted consequences of institutional effects, confirming earlier work which suggests that a focus on strengthening owner and weakening worker rights will yield the desired outcomes (Wood et al., 2016).

5.4 Limitations and future research directions

There are a number of limitations to this research. Firstly, UNCTAD data on outward FDI contain a large number of missing observations. In this study, we chose to include a large number of countries, even though some contained missing observations, to avoid the sample selection problem. However, a better source of data on outward FDI may result in more reliable estimates. Secondly, our analysis uses country-level aggregated outward FDI data, which might contain FDIs from both state and privately owned MNEs. Using firm level data may shed further light on the differences in the internationalisation processes of Latin American MNEs and their of OECD counterparts.

Finally, there is not only diversity between regions and sets of institutional domains, but also within them (Wood & Lane, 2012). Latin American countries (with the exception of the Guineas and Belize) share similar legal traditions, have some commonalities in terms of colonial legacies (ruled by Iberian kingdoms, followed by relatively early independence, heavy reliance on forced labour up until relatively late), in the processes through which their institutions have been built, and in the composition of their elites and linguistics. However, there is also much internal diversity, most notably in terms of human and natural resource endowments, and in their present socio-economic and political realities. More detailed studies of the FDI preferences from single Latin American nations might yield very different results (Li et al., 2018). At the same time, as can be seen from the above, there appear to be some clear trends which may provide signposts for future research. Whilst we have not found a distinct emerging market trajectory, with Latin American FDI being more regionally orientated, a closer examination of emerging market FDI may reveal common features in other areas, which may be distinct from those from more developed economies. Again, this would represent a fertile ground for future research.

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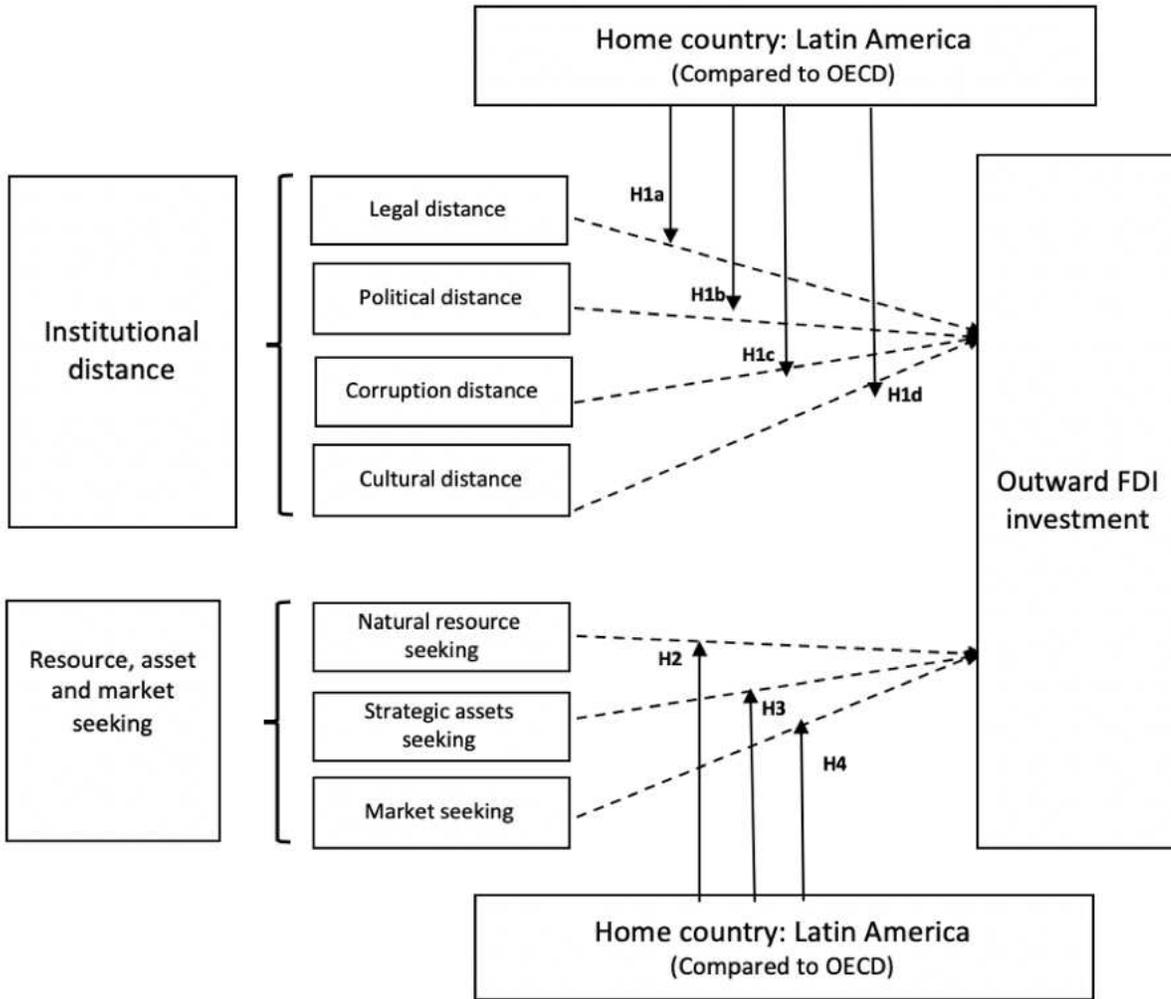
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Fig. 1
Conceptual model

Table 1

Variables definitions and sources

Variables	Descriptions	Sources
FDI	Outflow of foreign direct investment stock in millions of US$	UNCTAD
Political stability and absence of violence percentile rank (0-100) (*PS*)	The percentage of countries worldwide that ranked lower than the indicated country, with a higher value indicating better governance.	World Governance Indicators
Control of corruption percentile rank (0-100) (*COR*)	The percentage of countries worldwide that ranked lower than the indicated country, with a higher value indicating better governance.	World Governance Indicators
Hofstede's cultural distance (*CD*)	National cultural difference between the home and the host country. $CDij = \sum_{k=1}^{4}[\frac{(Ikj-Iki)/Vk}{4}]$, where I_k is the index for the *kth* cultural dimension for the host country *j* and home country *i*, V_k is the variance of the index of *k*th dimension.	Geert Hofstede's Academic Website
Geographical distance (*GD*)	Calculated using the geographic coordinates of the capital cities.	Institute for Research on the International Economy (CEPII)
Ores, metals and fuel exports (*NATR*)	As percentage of merchandise exports	World Development Indicators, World Bank
ICT goods exports (*HTCH*)	Information and communication technology goods as a percentage of total exports	World Development Indicators, World Bank
GDP (*GDP*)	Gross domestic product expressed in current US$	World Development Indicators, World Bank
Trade openness (*TO*)	Sum of exports and imports relative to GDP	World Development Indicators, World Bank
Return on official exchange rate (*FX*)	Annual percentage return of the official exchange rate (local currency unit per US$, period average)	World Development Indicators, World Bank
Telephone lines (*TEL*)	Fixed telephone subscription per 100 people	World Development Indicators, World Bank

Table 2

Outward FDI Stock, 2001-2012, millionsof US$

Country	2001	2002	2003	2004	2005	2006	2-07	2008	2009	2010	2011	2012
Panel A	*Latin America*											
Argentina	2,096	2,483	1,518	2,007	2,499	3,303	3,709	3,786	4,620	8,346	9,724	8,633
Brazil	48,616	53,674	54,134	68,580	78,702	113,860	139,372	155,136	163,090	186,954	200,185	262,547
Chile						23,954	28,267	29,062	40,876	48,190	58,700	69,866
Colombia	164	784	652	718	1,050	1,472	2,476	2,895	3,621	6,840	12,354	8,167
Costa Rica									543	647	1,108	1,546
Ecuador	155	150	80	92	123	186	183	198	309	387	400	362
El Salvador										5	5	5
Guatemala										317	339	
Mexico									80,292	107,788	93,435	120,031
Panama	6,588	9,284	12,017	14,339	16,179	18,896	11,246	8,805	13,532	18,499	19,313	13,421
Peru									1,292	1,238		
Uruguay	334	292	380	2,431	4,763	4,341	6,864	9,293	9,957	13,661	11,752	7,239
Venezuela	4,229	4,722	4,796	5,473	6,162	6,464	5,495	4,153	4,557	5,235	6,557	7,496
Total	62,182	71,389	73,577	93,640	109,478	172,476	197,612	213,328	322,689	398,107	413,872	499,313
Panel B	*OECD*											
Australia	89,616	102,218	145,710	191,559	161,879	199,217	255,350	163,252	233,710	300,630	242,939	267,122
Austria	26,005	37,879	48,465	61,515	68,410	102,615	146,174	145,558	155,252	167,227	178,309	199,032
Belgium								672,675	939,300	871,504	940,932	909,613
Canada	242,139	265,196	307,394	359,869	373,581	429,973	502,017	501,123	581,862	545,133	572,019	606,109
Czech Republic	1,134	1,472	2,281	3,633	3,610	4,922	8,547	12,253	14,043	14,512	13,044	16,758
Denmark	64,740	67,567	77,180	124,985	128,416	146,325	182,425	190,232	207,221	214,170	222,518	240,197
Estonia	393	663	1,016	1,411	1,914	3,564	6,117	6,576	6,603	5,752	4,661	5,813
Finland	52,224	64,586	75,271	75,960	78,190	92,316	111,045	115,158	129,662	136,872	133,232	151,297
France	504,087	581,703	716,368	839,667	850,783	1,028,489	1,294,732	1,355,848	1,513,770	1,504,135	1,490,522	1,555,133
Germany	617,257	695,207	830,226	924,552	926,939	1,080,141	1,330,479	1,326,184	1,410,408	1,460,839	1,478,051	768,679
Greece	6,408	8,246	11,262	12,520	12,414	21,025	32,061	33,588	42,870	37,752	41,071	38,890
Hungary	1,354	1,854	3,006	5,334	7,357	11,636	15,756	15,932	17,234	16,720	16,834	24,184
Iceland	839	1,253	1,729	4,025	10,097	13,962	25,121	9,404	10,188	11,466	11,519	12,226
Ireland	22,406	32,115	41,414	57,229	53,707	77,321	90,514	112,292	173,464	180,768	217,880	235,737
Israel	6,539	7,201	9,689	14,375	18,043	23,705	49,855	54,397	49,525	58,609	59,869	60,808
Italy	137,823	144,960	178,625	212,469	206,641	252,844	409,221	436,314	476,608	475,197	505,665	482,873
Japan	288,458	294,065	323,336	357,243	372,838	430,257	519,729	653,483	714,088	792,687	904,626	979,233
Korea, Republic of	31,814	34,126	36,080	40,763	46,618	57,191	77,182	90,480	108,084	128,315	172,842	202,606
Luxembourg	7,250	16,148	19,071	25,280	29,202	34,005	56,363	85,744	85,501	84,329	68,392	20,511
Netherlands	329,006	392,676	550,626	621,420	633,646	784,543	922,990	871,670	932,776	908,559	924,847	917,604
New Zealand	5,097	6,863	8,836	9,627	10,738	9,597	13,002	11,650	14,448	13,002	14,937	17,345
Norway	36,838	46,466	56,059	86,804	98,441	127,479	146,141	135,383	168,908	184,652	200,690	231,387

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Poland	967	1,300	1,969	3,009	6,055	14,037	18,808	23,034	28,418	44,431	52,713	57,293
Portugal	22,249	21,170	34,141	34,556	32,666	41,566	51,884	45,961	53,711	66,616	65,337	68,906
Slovakia	417	445	511	678	750	1,360	1,567	2,794	3,032	3,203	3,962	4,338
Slovenia	986	1,513	2,373	3,027	3,288	4,544	7,807	8,577	8,827	7,923	7,573	7,134
Spain		42,969	239,451	304,490	298,774	429,029	574,702	583,080	618,241	644,905	648,542	605,106
Sweden	113,241	135,751	176,376	202,431	194,386	242,847	305,757	301,257	331,202	347,109	352,658	370,666
Switzerland	219,276	248,247	285,792	331,444	349,250	451,444	523,133	583,268	695,977	845,787	938,168	973,518
Turkey	4,349	5,619	5,922	6,840	8,087	8,637	11,956	16,805	18,801	19,559	22,716	25,900
United Kingdom	839,185	942,272	1,146,131	1,189,893	1,136,710	1,343,653	1,703,034	1,444,622	1,427,927	1,457,091	1,490,027	1,491,335
United States	1,458,410	1,605,992	1,758,924	2,020,425	2,236,533	2,470,807	2,975,733	3,202,115	3,539,101	3,726,869	4,048,922	4,436,888
Total	5,130,510	5,807,743	7,095,235	8,127,032	8,359,962	9,939,054	12,369,200	13,210,708	14,710,764	15,276,323	16,046,013	15,984,242

Table 3

Top 10 host countries of outward FDI stock 2001–2012, millionsof US$

Country	2001	2002	2003	2004	2005	2006	2-07	2008	2009	2010	2011	2012
Panel A: Latin												
Argentina	1,789	1,624	1,650	3,976	4,012	10,765	12,691	14,538	14,975	19,524	20,958	25,083
Austria							31,233	31,237	36,303	37,528	48,096	58,348
Bahamas	6,170	7,284	6,925	8,234	7,826	9,544	9,944	9,967	10,925	13,075	13,711	
Bermuda	994					15,094						
Brazil					3,943				21,845	37,652	42,256	35,150
British Virgin Islands	7,834	5,853	6,710	6,651	7,665	11,632	12,884	12,279	16,444	17,926	18,957	25,627
Cayman Islands	18,599	24,161	22,248	26,320	26,500	35,917	42,712	52,791	47,519	48,592	37,506	46,922
Chile						4,846						15,757
Denmark					7,002	9,802	10,709	12,956	8,444	10,144		
France			1,591									
Luxembourg					2,062	3,131	3,588	4,384	4,677	5,271		
Netherlands					3,129					20,299	28,188	44,494
Panama	963						5,065	6,776				
Peru		1,908	1,943	2,185					9,302	11,593	11,980	16,079
Portugal		1,353										
Spain	1,673	2,965	2,088	3,323	5,848	8,274	10,596	13,060	17,338	32,945	42,111	43,796
United States	10,137	13,324	16,312	18,876	21,078	22,533	14,339	18,180	60,680	64,750	53,414	75,154
Uruguay	3,603	2,240	3,641	2,333								
Venezuela	1,681	1,676										
Panel B: OECD												
Belgium	190,659	230,619	250,193	278,684	276,148	345,219	474,028	557,423	610,884	652,022	660,531	542,298
Canada	224,468	229,889	265,311	291,057	327,102	338,860	427,306	399,569	460,336	509,202	532,323	595,723
France	179,533	228,597	274,857	330,898	339,846	376,173	367,835	532,753	584,770	517,639	515,928	461,184
Germany	189,706	214,237	294,489	368,663	398,378	449,275	571,296	625,654	651,835	620,626	614,001	606,995
Ireland	113,712	155,577	178,669	197,802						397,828	430,936	472,558
Luxembourg	236,643	267,490	375,483	458,433	427,568	480,131	659,963	831,933	1,001,35	1,094,69	1,262,90	1,198,18
Netherlands	562,847	638,986	772,140	883,746	751,376	952,149	1,371,81	1,521,20	1,660,10	1,643,74	1,828,10	1,797,41
Spain					228,980	254,852	350,746	373,867	408,427			
Switzerland	166,378	207,267	275,460	285,343	259,492	307,070	347,844	408,528	449,581	460,643	459,786	457,179
United Kingdom	527,505	611,408	769,938	942,780	986,613	1,190,93	1,315,42	1,257,95	1,441,83	1,499,76	1,518,18	1,693,85
United States	1,154,25	1,183,88	1,330,45	1,438,47	1,457,18	1,641,06	1,898,80	1,953,92	2,070,59	2,093,14	2,251,58	2,229,35

Table 4

Descriptive statistics and correlation matrix

	Panel A: Latin America	Mean	Median	1	2	3	4	5	6	7	8	9	10	11	12	13
1	FDI (Mil USD)	763.41***	6.00***	1.00												
2	Geographical distance (km)	7,633.90***	8,360.62***	-.10***	1.00											
3	Legal distance	/	/	.10***	.14***	1.00										
4	Political distance	30.82***	28.36***	.03	.04**	-.00	1.00									
5	Corruption distance	29.17***	27.80***	.02	-.08***	-.05***	.55***	1.00								
6	GDP destination (Mil USD)	915,081.37***	189,000***.	.21***	.013	.31***	-.04**	.09***	1.00							
7	GDP origins (Mil USD)	409,331.94***	149,000.00***	.23***	.014	.05***	-.00	-.06***	-.02	1.00						
8	Ores, metals and fuel exports (%)	19.95***	9.28***	-.05**	-.15***	.03*	-.08***	-.00	-.15***	.03*	1.00					
9	Trade openness (%)	84.08***	70.15***	-.05**	.27***	.04**	.13***	.02	-.28***	.13***	-.20***	1.00				
10	Return on exchange rate (%)	9.87	0.00	-.01	.06**	-.02	-.03	-.01	-.01	-.00	.00	.01	1.00			
11	Tax heaven	/	/	.11***	-.22***	.21***	-.02	-.13***	-.13***	.19***	-.13***	.18***	-.01	1.00		
12	Telephone lines (per 100 people)	32.68***	30.40***	.13***	.34***	.21***	.27***	.17***	.33***	.01	-.31***	.13***	-.03	.04*	1.00	
13	High-tech exports (%)	6.36***	2.88***	-.02	.39***	.11***	.11***	-.01	.20***	.06***	-.35***	.4***	.00	-.02	.31***	1.00
	Panel B: OECD	Mean	Median	1	2	3	4	5	6	7	8	9	10	11	12	13
1	FDI (Mil USD)	4,549.76	47.47	1.00												
2	Geographical distance (km)	5,924.86	5,572.66	-.07***	1.00											
3	Legal distance	/	/	.03***	.26***	1.00										
4	Political distance	31.83	26.92	-.10***	.07***	.01	1.00									
5	Corruption distance	31.74	26.83	-.17***	.11***	-.06***	.59***	1.00								
6	GDP destination (Mil USD)	560,432.52	938,000.00	.31***	.03***	.08***	-.07***	-.17***	1.00							
7	GDP origins (Mil USD)	1,604,674.63	429,500.01	.20***	.18***	.19***	-.06***	.10***	-.05***	1.00						
8	Ores, metals and fuel exports (%)	22.56	10.66	-.08***	.09***	-.01	.17***	.33***	-.13***	.04***	1.00					
9	Trade openness (%)	93.89	79.20	.017**	-.05***	.07***	-.21***	-.2***	-.22***	-.00	-.16***	1.00				
10	Return on exchange rate (%)	14.35	0.00	-.01	.01	-.02*	-.00	.03***	-.01	-.00	.00	.01	1.00			
11	Tax heaven	/	/	-.04***	.08***	.12***	-.11***	-.13***	-.10***	.00	-.10***	.11***	-.01	1.00		
12	Telephone lines (per 100 people)	28.93	25.20	.19***	-.22***	.04***	-.40***	-.65***	.28***	-.10***	-.32***	.2***	-.04***	.18***	1.00	
13	High-tech exports (%)	7.28	2.48	.05***	.04***	.09***	-.11***	-.24***	.13***	-.06***	-.35***	.51***	-.00	.08***	.27***	1.00

* p<0.10, **p<0.05, *** p<0.01; in the correlation matrix, the variables, FDI, GDP, Telephone line, have been transformed by taking natural logarithm.

Table 5

Regression results, dependent variable FDI outstock, 2001-2012.

	Panel A: Random effects			Panel B: System GMM			Panel C: PSM		
	Latin	OECD	Combined	Latin	OECD	Combined	Latin	OECD	Combined
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Institutional distance									
Legal distance (LEGD)	0.031	-0.080***	-0.071***	0.987***	-1.950**	0.521	0.012	-0.009	-0.018
	(0.358)	(-3.273)	(-2.986)	(2.771)	(-2.009)	(0.658)	(0.122)	(-0.128)	(-0.319)
Political distance (PD)	0.001	-0.000	-0.000	-0.001	-0.012	-0.001	0.001	-0.001	-0.001
	(0.465)	(-0.360)	(-0.718)	(-0.132)	(-1.106)	(-0.332)	(0.759)	(-0.602)	(-0.509)
Corruption distance (CORD)	-0.003**	0.000	0.000	-0.008	0.002	0.013*	-0.005**	0.004*	0.002
	(-2.011)	(0.709)	(0.637)	(-1.248)	(0.155)	(1.705)	(-2.559)	(1.839)	(1.047)
Geographical distance (GD)	-0.261***	-0.146***	-0.138***	-0.532***	-0.627**	-0.838***	-0.239***	-0.092**	-0.114***
	(-6.227)	(-11.159)	(-10.852)	(-3.052)	(-2.140)	(-2.820)	(-4.376)	(-2.109)	(-3.453)
Latin* Legal distance (LEGD)			0.116			-0.341			0.032
			(1.165)			(-0.203)			(0.301)
Latin* Political distance (PD)			0.001			0.079**			0.002
			(0.536)			(2.343)			(1.037)
Latin* Corruption distance (CORD)			-0.004*			-0.127***			-0.007**
			(-1.820)			(-3.002)			(-2.555)
Latin* Geographical distance (GD)			-0.176***			-2.570**			-0.111**
			(-4.341)			(-2.283)			(-2.089)
2. Natural resource seeking									
Ores, metals and fuel exports (NATR)	-0.004**	-0.000	-0.000	-0.004	-0.008	0.007	-0.003*	0.001	0.002
	(-2.304)	(-0.564)	(-0.494)	(-0.673)	(-1.111)	(0.724)	(-1.647)	(0.743)	(1.190)
Latin* Ores, metals, fuel exports (NATR)			-0.004**			-0.069***			-0.004**
			(-2.046)			(-2.635)			(-2.057)
3. Strategic assets seeking									
ICT good exports (HTCH)	-0.001	0.001	0.001	0.009	-0.057***	-0.012	-0.002	0.005	0.003
	(-0.188)	(0.422)	(0.835)	(0.618)	(-2.713)	(-0.912)	(-0.442)	(1.235)	(0.887)
Latin* ICT good exports (HTCH)			-0.006			-0.039			-0.005
			(-1.315)			(-0.634)			(-1.093)
4. Market seeking									
GDP	0.066***	0.166***	0.155***	0.041	1.823***	0.833***	0.073***	0.054*	0.059***
	(2.737)	(15.071)	(15.150)	(0.422)	(6.123)	(3.626)	(2.827)	(1.792)	(3.087)
Latin*GDP			-0.057***			0.342			0.007
			(-2.830)			(1.283)			(0.328)
Control variables									
Tax heaven (THVN)	0.000	0.244***	0.185***	-0.702*	3.534***	1.633**	0.074	0.016	0.083
	(0.002)	(4.068)	(3.442)	(-1.687)	(3.136)	(2.090)	(0.589)	(0.125)	(1.003)
GDP_Origins (GDPO)	0.032	0.180***	0.158***	0.066	0.854***	0.743***	0.020	0.081**	0.033*
	(1.544)	(17.627)	(17.171)	(1.100)	(4.826)	(3.238)	(0.872)	(2.363)	(1.865)
Trade openness (TO)	0.001	0.001***	0.001**	0.003	0.015***	0.006***	0.001	-0.001	0.000
	(0.754)	(2.834)	(2.541)	(0.953)	(4.039)	(2.585)	(0.767)	(-0.527)	(0.453)
Return on exchange rate (FX)	-0.000	0.000	-0.000	-0.251	3.078	0.244	-0.000	-0.001	-0.000
	(-0.753)	(0.001)	(-0.282)	(-0.682)	(1.609)	(0.519)	(-0.832)	(-1.363)	(-0.839)
Telephone lines (TEL)	0.001	0.032**	0.026**	0.045	-1.185***	-0.393*	0.015	0.094**	0.029
	(0.031)	(2.480)	(2.175)	(0.346)	(-4.119)	(-1.807)	(0.387)	(2.047)	(1.069)
Latin			3.112***			17.875*			1.046
			(5.203)			(1.646)			(1.486)
L.FDI Outstock	0.871***	0.838***	0.844***	0.850***	0.534***	0.728***	0.888***	0.877***	0.902***
	(45.974)	(123.547)	(132.443)	(23.123)	(8.376)	(13.897)	(42.920)	(44.032)	(60.592)
N	1,875	15,667	17,542	1,906	15,948	17,854	1,467	1,149	2,616
AR (1) P-value				0.000	0.000	0.000			
AR (2) P-value				0.566	0.137	0.154			
Hansen P-value				0.210	0.671	0.471			

This table report the regression results of random effects, system GMM and PSM approach. Robust t-statistics are reported in parenthesis. * p<0.10, **p<0.05, *** p<0.01.

Appendix A

Balance of matching

Variable	Matched Latin America		Matched OECD		Difference	P-value
	Mean	Std	Mean	Std		
Tax heaven	0.105	0.307	0.110	0.313	-0.005	0.591
GDP	25.554	2.194	25.514	2.057	0.040	0.532
Export	24.575	1.179	24.566	1.138	0.009	0.793
Trade openness	80.519	43.803	80.877	51.613	-0.358	0.801
Return on exchange rate	10.283	301.970	13.514	422.038	-3.231	0.767
Telephone lines	3.034	1.050	3.012	0.950	0.023	0.446